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SUBJECT: PANAMA'S NEW GOVERNMENT IN PRODUCTIVE TALKS WITH
DAS FISK -- BUT ILEA IS "NO GO"

Classified By: AMBASSADOR LINDA WATT FOR REASONS 1.4 (B) AND (D).

SUMMARY

1. (C) WHA Deputy Assistant Secretary Dan Fisk's October 5-7 meetings with President Torrijos and key cabinet officials brought friendly and productive exchanges on security and law enforcement cooperation; foreign policy; economic and trade policy; and good governance/anti-corruption. DAS Fisk emphasized that the USG wants to continue close collaboration with Panama on security matters, especially on transnational crime and emerging regional threats, such as gangs. DAS Fisk spent October 6 near the Colombian border touring Panama's Darien province with Ambassador Watt and Panama National Police (PNP) Chief Gustavo Perez (to be reported septel) and attended a dinner with Panamanian business leaders.

2. (C) DAS Fisk's meetings with President Martin Torrijos, Foreign Minister Samuel Lewis, Minister of the Presidency Ubaldo Real, Minister of Commerce and Industries Alejandro Ferrer, and Minister of Government and Justice Aleman touched on the following issues:

-(security) proposals to centralize public forces, form a specialized police border unit, found a maritime academy/training center, and establish an International Law Enforcement Academy (ILEA) in Panama;

-(foreign policy) Haiti, Colombia, and Venezuela;

-(economic and trade policy) bilateral Free Trade Agreement, Free Trade Area of the Americas (FTAA), Canal expansion, and enhancing Panama's comparative advantage as a trade crossroads;

-(anti-corruption and good governance) Aleman/Portillo corruption cases and a soon-to-be-named anti-corruption commission.

In an October 7 meeting, FM Lewis told DAS Fisk that the GOP had decided to turn down the USG's proposal to base an ILEA for Latin America in Panama, for fear that it would attract too much political heat.

End Summary.

President Torrijos Outlines Ambitious Agenda

3. (C) At an October 5 luncheon with DAS Fisk and other participants attending a U.S. Embassy Panama-hosted Central America chiefs of mission conference, President Torrijos discussed his government's ambitious agenda. Torrijos, accompanied by his ministers of foreign affairs (Samuel Lewis Navarro), trade (Alejandro Ferrer), and the presidency (Ubaldo Real), noted that his government plans to pursue an integrated strategy aimed at combating corruption, establishing clear rules of the game and enhancing transparency in order to attract greater domestic and foreign investment, which will in turn generate employment and reduce poverty.

4. (C) Torrijos said his government seeks to capitalize on Panama's comparative advantage as a strategic crossroads for commerce. Thus, a central component of his government's strategy is the expansion and modernization of the Canal, along with the development of Panama's seaport and airport

facilities, which serve as critical regional hubs. Elaborating on Canal expansion, Torrijos and his ministers explained that this 10-to-12-year modernization project would cost an estimated \$5 billion, which would likely be funded through a combination of Canal revenues (which are robust and rising), new user fees for major shipping companies, and bridge loans to finance any gaps.

15. (C) Torrijos underscored the importance of cultivating closer relations with the United States, pointing to our mutual economic and security goals. In this context, Trade Minister Ferrer stressed the importance of reaching a free trade agreement (FTA), ideally by early December. He noted that the GOP seeks an FTA that takes into account Panama's sensitive agricultural sector. Ferrer pointed out that seven or eight key agricultural products generate significant employment in Panama's impoverished rural areas (where he cited an estimated 70% of the population lives in poverty). Minister of the Presidency Real highlighted the serious security implications of this issue, observing that a restive rural sector could threaten domestic stability. In this regard, Torrijos added that while Canal expansion would attract important ancillary service sector businesses, it would not generate significant employment for Panama's working classes. (Comment: Construction during the decade-long project is expected to generate considerable well-paid temporary employment. End Comment.)

16. (C) On foreign policy, Torrijos said Panama is reassessing its relations in the region, including the issue of integration with other Central American countries. Torrijos said his government is currently considering a more realistic approach to regional issues that would stress shared interests -- such as cooperation on common customs and transportation policies -- rather than a top-down approach focused on political integration, which he averred had been undermined by intractable problems within Paracen.

Aleman/Portillo, Security, Free Trade, Zak Hernandez

17. (C) In a pull-aside following lunch, DAS Fisk told Torrijos that the USG looks forward to developing an even closer relationship with Panama based on a broader range of issues. For example, the USG seeks Panama's cooperation in the corruption case involving former Nicaraguan President Aleman as well as in any cases which develop involving former Guatemalan President Portillo. Fisk noted that the USG does not want to interfere in the judicial aspects of these cases but views them as important precedents that would send a strong message throughout the region. In response, Torrijos pledged Panama's cooperation but noted that returning Aleman's ill-gotten money to the Nicaraguan government is complicated because the GOP and Panamanian banks are navigating uncharted legal waters. Nonetheless, Torrijos suggested that the Nicaraguan Attorney General send a formal request seeking the repatriation of Aleman's accounts in Panamanian banks. Torrijos stressed that the GON needs to state explicitly in its request that these accounts belong to the Nicaraguan government.

18. (C) Fisk underscored that the USG would like to enhance security and law enforcement cooperation with Panama. He also urged Panama to think more expansively about its role in the region and to play a more prominent role in discussions of security issues. Fisk noted that Panama could help other Central American countries whose military establishments remain mired in outdated Cold War thinking. Panama, unburdened by a military, could help re-focus other Central American countries on current challenges such as gangs and transnational threats.

19. (C) Turning to trade, Fisk noted that President Bush remains committed to pursuing a vigorous free trade policy in the hemisphere, including the conclusion of an FTAA. Torrijos agreed with Fisk's assessment that the FTAA has more life to it than some countries in the region are willing to acknowledge.

110. (C) In closing, Fisk stressed the importance that the USG attaches to the GOP pursuing legal measures to achieve justice in the case of U.S. serviceman Cpl. Zak Hernandez, who was murdered while stationed in Panama in 1991. Fisk said this issue would remain a bilateral irritant unless the GOP pursued effective legal measures against those responsible for Hernandez's murder. (Note: Former Panamanian President Perez Balladares stage-managed the acquittal of PRD legislator Pedro Miguel Gonzalez, who is wanted by U.S.

authorities for his role in the Hernandez murder. End Note.)

Meeting With Foreign Minister Focuses on Regional Security

11. (C) In a detailed October 7 discussion, FM Lewis told DAS Fisk and Ambassador Watt that President Torrijos had decided not to accept the USG's proposal to establish an ILEA in Panama because it could generate unwelcome political heat at a moment when the GOP must husband its political capital before taking potentially unpopular decisions to reform Panama's Social Security Fund and making budget and personnel cuts. (Note: Also, the GOP plans to ask voters to approve a referendum on Canal expansion during 2005. End Note.)

12. (C) Lewis also was cautious when DAS Fisk proposed establishing a Coast Guard international training facility in Panama. He explained that the GOP currently is studying an unrelated Texas A&M University proposal for a maritime institute in Panama to train merchant seamen and to undertake related initiatives. Although the two ideas are dissimilar, Lewis proposed exploring whether the Coast Guard might want to participate under the (civilian) umbrella of Texas A&M. (Note: Torrijos and Minister of the Presidency Ubaldo Real are Texas A&M graduates.) The Texas A&M proposal would not need approval by the Legislative Assembly, Lewis noted. Panama is keen to greatly increase employment opportunities for Panamanians aboard Panamanian-flagged vessels, Lewis said, but currently lacks the means to train them.

13. (C) DAS Fisk said the USG is pleased by the high level of cooperation it enjoys with Panama on security issues. Many of the same transnational crime and security concerns affect all of Central America, such as drugs and undocumented immigrants (which flow north toward the United States) and arms (which flow south toward Colombia). The USG would like to see greatly improved cooperation among Central American nations on all aspects of regional security and transnational crime that affect the entire region. As an example, Fisk pointed out that drug running pilots often fly directly over the borders of two countries, confident that each country's air authorities will be reluctant to chase an airplane that may move into the other country's airspace. The same problem obtains on the sea. A welter of bilateral problems and inhibitions is getting in the way, Fisk said.

14. (C) Panama wants to "play a role," Lewis said, promising to raise those topics at a meeting of Central American nations in El Salvador during the week of October 11-15. The region probably should concentrate on improving, customs, roads, electricity transmission, and security. Panama will host a Caribbean summit in July 2005, Lewis said, adding that Caribbean nations are interested in concluding a multilateral shipboarding agreement, which would accord with Fisk's suggestion.

Colombia-Venezuela-Haiti

15. (C) Lewis said that President Torrijos would go to Colombia to attend a November 1 three-way Colombia-Venezuela-Panama summit with presidents Uribe and Chavez. The meeting would discuss Chevron proposals to integrate Colombian and Venezuelan natural gas fields and possibly build a gas pipeline to Panama. Lewis noted estimates of up to 300,000 Colombians living in Panama, mostly illegally. On Haiti, Lewis said Panama was interested in contributing where it could, such as helping to organize the electoral process, using resources of Panama's highly respected Electoral Tribunal.

Meeting with MOJ Hector Aleman

16. (C) At an October 5 meeting that the Ambassador attended, Minister of Government and Justice Aleman told DAS Fisk that the GOP is determined to establish a stronger official and police presence in the Darien border region with Colombia. Panama's most ethnically diverse province, the Darien is beset by land disputes between settlers from other Panamanian provinces, Afro-Panamanians, and indigenous groups, Aleman explained. Aleman said the GOP is giving serious thought to proposals to create a specialized police border unit with a new law to clearly codify its mission and

to staff it with more police than are now assigned to duty there. (Note: At present approximately two companies -- about 150 effectives -- of militarized police in the Darien. End Note.) The GOP's aim is to take back areas now controlled by criminals and guerrillas and to improve security for the population, as well as to interdict flows of weapons, narcotics, and undocumented aliens. Increasing numbers of undocumented Ecuadorians, Peruvians, and Chinese are using the Darien and Panama to head north toward the United States.

17. (C) The challenge to improve security extends as well to sea and air. Panama has more seacoast to defend than land. Vast stretches of coast are currently unpatrolled as are Panama's offshore islands. What Panama needs is a real Coast Guard, instead of an understaffed National Maritime Service (SMN) which lacks a clear mission, Aleman said. The National Air Service (SAN) also lacks capability and a clear mission. Radar operators daily track unidentified, illegal flights in Panama's airspace but the SAN lacks the means to intercept them. That's very frustrating, Aleman said.

18. (C) Under the previous GOP, the Panamanian National Police (PNP) was king, the Ambassador said, and got the lion's share of resources, crowding out the SMN and SAN. DAS Fisk said Washington had understood, apparently incorrectly, that the PNP also had air and sea capabilities. (Comment: The PNP does have helicopters and several "brown water" patrol vessels. End Comment.)

19. (C) Shifting to personal security, Aleman outlined an ambitious-sounding plan to convert Panama's prisons to resocialization enterprises. He pledged "equal applicability" of the law to all Panamanians. Gangs in Panama are far from reaching Salvadoran or Guatemalan proportions, Aleman continued. Even so, MOGJ has identified 102 separate gang entities in Panama which as yet have no great criminality but "if we don't act now, we'll be in trouble." The PNP has no specific unit to deal with gangs or child criminals, for example.

Meeting with Minister of the Presidency Ubaldo Real

20. (C) At an October 7 meeting with Ambassador Watt, MOP Real told DAS Fisk that he is deeply involved in the new GOP's efforts to enforce a "zero tolerance" anti-corruption policy. President Torrijos plans to unveil the GOP's new Anti-Corruption Commission on October 18. Confronting corruption means forcing cultural change in Panama, Real said. People need to be educated on public sector ethics, for example, not to use publicly funded cars, telephones, or office supplies for private use. Meanwhile, the government must lead by example and bring wrongdoers to justice. Prosecuting a "big fish" would make an especially big impression. On the other hand, the GOP must be careful to follow the rule of law and avoid a "lynch mob" mentality. We want to accuse wrongdoers of breaking the law, Real said, but we also will have to prove it. We must proceed step by step.

21. (C) DAS Fisk told Real that Washington had "great expectations" for the Torrijos government's "forward-looking" agenda and on anti-corruption. It makes sense that the government proceed carefully to avoid "tying itself into knots" while pursuing a corruption case. He agreed that fostering a "culture of lawfulness" would be important for success and also praised the GOP for cooperating in investigating Panamanian bank accounts allegedly belonging to former Nicaraguan President Aleman. This government is not the old PRD, Real said, adding that he welcomed constructive criticism. Change needs time. How could the previous government leave us with such a mess? he asked rhetorically, adding that the new GOP wants to start changing popular attitudes and practices toward corruption now, so that the next government will not inherit such large difficulties.

22. (SBU) At an October 6 dinner with Panamanian business leaders, DAS Fisk reviewed regional problems and USG approaches, especially regarding free trade (CAFTA) and security cooperation. In general, U.S. policy has had major success in Central America during the past two decades, he said, but inequality of opportunity remains a problem. Collusion between business and government is unfairly stacking the economic deck in favor of a small number of privileged insiders. Central America, Panama included, will need to open and democratize its economic structure to ensure participation by all. Why is it that Central American immigrants in the United States can be highly successful as

entrepreneurs while they seem stifled at home? he asked rhetorically. Several participants spoke of the need for a greatly improved education system, as many Panamanians who complete formal public schooling find themselves woefully unprepared for workplace realities.

123. (U) This message has been cleared by DAS Fisk.

MINIMIZE CONSIDERED

WATT